



USAID/OTI Sri Lanka Program

**Quarterly and Final Report
July 1, 2004 to September 30, 2004**

**Prepared by: Development Alternatives, Inc.
Contract Number: AOT-I-03-98-00190-00**

TABLE OF CONTENTS

PROJECT OVERVIEW	3
PROGRAMMING.....	4
<i>Country Situation during the Quarter.....</i>	<i>4</i>
<i>Continued Monitoring and Evaluation Produces Valuable Results.....</i>	<i>6</i>
<i>Mid-Term Assessment, Strategy and Team Building Session: Early Expectations and Final Results...</i>	<i>6</i>
<i>Programming and the Contract Transition.....</i>	<i>8</i>
<i>Overall Programming</i>	<i>8</i>
<i>Colombo Office Programming.....</i>	<i>9</i>
<i>Ampara Office Programming.....</i>	<i>9</i>
<i>Trincomalee Office Programming</i>	<i>10</i>
IMPLEMENTATION	11
OPERATIONS	12
<i>Administrative and Staffing Issues</i>	<i>12</i>
<i>Financial and Contractual Issues</i>	<i>13</i>

PROJECT OVERVIEW

On February 25, 2003, Development Alternatives, Inc. (DAI) signed Contract No. AOT-I-03-98-00199-00, Task Order No. 3 with USAID's Office of Transition Initiatives (OTI) to begin implementation of OTI's Sri Lanka program. The contract was executed under the SWIFT IQC. The above-referenced contract runs until February 25, 2003.

After 20 years of civil war, the Government of Sri Lanka (GOSL) and the Liberation Tigers of Tamil Eelam (LTTE) signed a ceasefire agreement in February of 2002. Formal peace talks began seven months later, facilitated by the Government of Norway. In the weeks that followed the commencement of the talks, the parties demonstrated a willingness to compromise on controversial issues in an effort to make tangible progress towards a negotiated settlement. An assessment mission to Sri Lanka by OTI in late 2002 concluded that the current peace initiative had the best chance of any to date in bringing a sustainable peace to the country. OTI concurred, and the Sri Lanka program was opened in February of 2003.

OTI's overall objective in Sri Lanka is to generate greater support for a negotiated settlement of the conflict. The program plans to achieve this objective through the funding of activities under three sub-objectives. The first sub-objective is to demonstrate tangible benefits of peace. Illustrative activities under this sub-objective might include rehabilitation of community infrastructure, with active local stakeholder participation, and livelihood assistance. The second sub-objective is to increase the amount and exchange of information and diverse points of view among various levels of society and between and among various communities on peace-related issues. Activities that might be funded under this sub-objective include public service announcements, surveys and peace dialogues. Sub-objective number three is to reduce or prevent incidents of violence in conflict-prone communities. The types of activities that could be funded within this sub-objective could include community dialogues and peace advocacy campaigns.

OTI's island-wide geographic focus called for the establishment of three offices under the management of DAI. These are located in Colombo, Ampara and Trincomalee. These locations were selected in order to target populations and issues that were the most congruent with the program's sub-objectives.

The following report will detail the major challenges faced during the past quarter. These will be categorized as Programming, Implementation and Operations and will indicate how DAI addressed these challenges and maintained the program's commitment to rapid response.

PROGRAMMING

Country Situation during the Quarter

The quarter opened to continued political maneuvering by the political parties in the South over the government's efforts to secure a stable majority in Parliament. Members of the ruling UPFA actively courted minority parties for their seats; the opposition UNP tried to amass support against the government's overtures. The government's moves were widely believed by some political observers to be associated with the President's desire to amend the constitution to abolish the executive presidency, thereby positioning herself to assume the post of Prime Minister before the end of her current – and final – term as head of state. Others accused the opposition of being driven by the opposite political agenda. The conclusion reached by many observers was that Sri Lanka's political leaders seemed unable or unwilling to separate peace and prosperity from personal and political gain.

Against this backdrop, a female suicide bomber blew herself up on 8 July in a Colombo police station located next to the Prime Minister's residence across from the US Embassy. Five people were killed in the blast with another ten injured. The attack was the first suicide bombing in Colombo since before the ceasefire and was immediately attributed to the LTTE. The bomber had been detained by police earlier while trying to enter the office of Minister of Hindu Affairs Douglas Devananda, leader of the opposition Tamil group Eelam Peoples' Democratic Party (EPDP), who had recently announced his support for the Tigers' renegade leader Karuna.

The incident sparked renewed concern among the public and the international community about the status of the peace process. Security in and around Colombo was tightened and remained so throughout the quarter. Karuna's whereabouts once again became newsworthy and speculation was rife as to his source of support. The LTTE continued to claim throughout the reporting period that Karuna and his cadres were receiving assistance from the military, and stated that they would not resume negotiations until the Karuna issue was settled. For its part, the Sri Lankan military continued to deny these accusations.

The government and the LTTE continued to blame each other for the delay in the resumption of peace negotiations during the past quarter. The LTTE used the alternate excuses of the present government's instability, disunity within the ruling UPFA over the basis for a resumption of talks, and the Karuna question almost interchangeably. They further confounded a bemused public by stating that the Interim Self-Governing Authority (ISGA) proposals were indeed negotiable after having been steadfast in their refusal to consider this previously. For its part, the government consistently sent mixed messages about its position. Press reports on some days stated their willingness to use the ISGA proposals as the basis for negotiations; at other times, it was reported that the government would only resume dialogue if the ISGA was discussed in tandem with a final solution to the national question. The President, in a move that signaled her

frustration with her coalition partner's position on a range of issues including the peace process, abruptly resigned as the leader of the United Peoples' Freedom Alliance in August.

As the content and level of the rhetoric from both sides sharpened, there was growing worry that the process might collapse entirely. The worsening situation prompted the Norwegians to undertake a new round of shuttle diplomacy during the third quarter. The facilitators traveled between Colombo and Kilinochchi trying to secure a fresh timetable for the resumption of negotiations, without success. As a leading delegation member said, "A frozen war is melting at the edges."

While the LTTE pointed its finger at the government for its seeming inability to keep coalition partners on message, the rebel group itself spent much of the past quarter trying to quell opposition from within the Tamil community. Aside from the continuing rampant assassinations in the East (see below), the Tigers were also busy eliminating rivals in other parts of the country. In Colombo, a key security force operative and former member of a pro-government Tamil paramilitary group was murdered in July, and a Tamil politician opposed to the LTTE and Sri Lankan Army informant were shot dead in August. Another Tamil activist was shot dead in Puttalam during the past quarter.

In the East, predominantly in Batticaloa, the killing of cadres and supporters from both sides of the LTTE continued unabated. While most of the dead were lower level cadres and supporters, leaders from both LTTE factions, including Karuna's brother Reggie, and from the Tamil community at large were also targeted.

There were a number of incidents in Batticaloa over the past quarter involving suspected LTTE cadres and the Sri Lankan army. Soldiers were attacked and injured in at least three separate incidents. For its part, the Special Task Force, the Sri Lankan police's crack security unit, arrested a number of LTTE cadres in Akkaraipattu after being found with cartridges and cyanide. In an effort to improve communication, the monthly meetings held in Ampara district between the STF and the LTTE, which had been suspended, resumed during this past quarter. The meetings were facilitated by the Sri Lanka Monitoring Mission.

Due to personal security concerns, there was a reduced presence of LTTE members in Batticaloa and Ampara over the past quarter and their political offices remained inactive. For local people this meant a cessation of the LTTE's tax collection. Reports were received from fishing societies, some businesses and even government staff that tax collectors had not been seen for some time. The LTTE initiated a house-to-house public relations campaign but it remains to be seen what kind of support they will receive in the longer term.

As a result of the ongoing violence and resulting security restrictions, an atmosphere of fear was prevalent throughout the Tamil community in Ampara and Batticaloa over the past quarter. Ordinary Tamils have been afraid to comment in trepidation that anything said would be misconstrued as support for one side or the other. In addition, most media institutions in Batticaloa did not function during the quarter due to the past killings of

journalists. Most Tamil reporters fled to Colombo or were in hiding elsewhere at the quarter's close.

Besides the ongoing killings in Batticaloa, perhaps the most salient event of the quarter in the East was the capture of two Sinhalese home guards (armed militia sanctioned by the state) by the LTTE in the border area between Trincomalee and Anuradhapura districts. The home guards were caught by the LTTE and imprisoned for allegedly bringing weapons inside LTTE-controlled territory. Local people claimed that the home guards had been stealing cattle from Tamil civilians over the past couple of years. The detention of the home guards spawned several hartals (protests), road blocks and hunger strikes, allegedly organized by Sinhalese nationalist elements. In addition, the SLMM received threats of counter-kidnapping and detention of SLMM monitors unless the home guards were released. At the quarter closed, the home guards had not yet been freed.

Continued Monitoring and Evaluation Produces Valuable Results

Following on from a successful and informative pilot effort during the previous quarter, short term consultant Lee Briggs undertook monitoring and evaluation (M&E) exercises in each of the program's geographic areas. In some locations, such as Ampara, the selection of grants to monitor and evaluate intentionally targeted those considered to be of questionable impact. In other areas, such as Trinco, the selection of grants was made along thematic lines (peaceful co-existence grants) to evaluate the efficacy of the approaches used. In all cases, Mr. Briggs drew upon a combination of techniques to get at the deeper richness of feedback that grew out of grant activities.

As a result of the M&E, program development staff were instantly able to make changes to ongoing grants to intensify the impact felt by beneficiaries. In addition, program development staff used the lessons drawn from the M&E to design follow-on grant activities that were more resonant with beneficiary needs and expectations.

Mr. Briggs completed his M&E work for the program at the end of the quarter. He was also able to summarize the lessons learned and best practices in a final report to OTI. In addition to informing the design of future grants, the document is also being used as a training tool with newly-hired program development staff.

Mid-Term Assessment, Strategy and Team Building Session: Early Expectations and Final Results

Despite the positive impact of many of the program's grant activities, the breakdown in talks between the GoSL and the LTTE has undermined much of the trust and optimism that existed following the ceasefire agreement. A change in government and a split within the LTTE has only heightened uncertainty over the future of a negotiated settlement and fear that the ceasefire is in danger of eroding. The current stalemate prompted program staff to re-visit the program's strategy and, at the request of OTI, an internal mid-term assessment was conducted in September.

The mid-term assessment provided program staff an opportunity to re-examine the broader political context, to re-visit the underlying assumptions and to reconsider the “big picture” that lies beyond our immediate programmatic reach to determine the effectiveness of our overall programmatic approach and objectives in light of changing conditions on the ground. The purpose of the assessment was to inform and consider options for increasing the effectiveness of OTI’s short-term contribution to what, in the face of stalled peace negotiations and political paralysis, has become a long-term process: supporting Sri Lanka’s transition to sustainable peace.

Specifically, OTI Sri Lanka requested that the mid-term assessment team make recommendations on how to: (1) adjust or retarget programming to ensure that it is strategic, responsive and politically relevant in the current context; and (2) increase synergy with USAID and other donor programs to prepare for closeout and possible handover to the Mission in March 2006.

The results of the mid-term assessment were compiled in a report and discussed in detail at the OTI strategy review session preceding the team building session (TBS) in Dambulla on 29 September through 2 October. In addition, results from the program’s monitoring and evaluation initiative were also factored into the dialogue. The assembled program development staff concluded that while the overall objective of the program was still relevant, the program’s sub-objectives needed to be re-focused to reflect current contextual realities. The sub-objectives as initially formulated were:

- Demonstrate tangible benefits of peace;
- Increase the exchange of accurate, balanced information on peace-related issues; and
- Reduce or prevent incidents of violence in conflict-prone communities.

The new sub-objectives identified by staff will be:

- To increase awareness and/or understanding of key transition issues;
- To increase collaboration and participation among diverse groups to identify and/or address priorities.

In addition to the new sub-objectives, the program team took the decision to become more intentional in selecting its target audiences. Emphasis will now be placed on “key persons”, those individuals who have the ability to influence decision making and shape opinions at the grassroots level. Geographic focus areas also came under scrutiny. The team decided that going “deep” into a limited number of critical regions would be more impactful than spreading our grant making over a wider yet shallow area.

As an action item from the strategy session, each office will narrow its programming focus and submit their three “strategic locations” by 25 October. All offices will finalize any grants in the process of development under the old objectives but are also expected to begin development of new grant concepts in line with the new strategy. Finally, all offices will select minimum criteria for grant awards as a way of improving rigor in the types of activities the program chooses to fund.

Programming and the Contract Transition

Due to the transition to the new contract, only one month of the past quarter saw any grant making under the old contract. Grants for August and September were made under the new contract per instructions from USAID's Office of Procurement. The program development team accommodated this shift from one contract to another by intentionally structuring grants to occur in two phases – those that could be completed prior to 31 August and closed under the old contract by 30 September, and those that required more time to implement and complete. It was this latter set that became the first grants of the new contract period. The challenge lay in making sure that the shift from the first phase grants to the second went seamlessly.

Overall Programming

At the close of the quarter, the program had made a total of 189 grants for \$3,965,039 since inception. This represents a 12% increase in the number of grants over the previous quarter and 7% increase in grant funds committed. Although the pace of grant making was substantially less than that of the previous quarter, it must be remembered that grant making under this contract was limited to only one month of the entire reporting period. On that basis alone, a 12% increase in grant funds committed during the one month of the third quarter compares very favorably with a 22% increase in funds committed over the previous three-month period.

The overall geographic distribution of total grants and committed funds reflected the preference for those grants that could be implemented quickly in order to meet contract transition deadlines. Naturally, these were located in areas that were in closer proximity to the programs three offices. National level grants – comprising media and information activities – rose to 21% from 19% of total grants. However, total funds committed to national level grants dropped to 11% of the overall total as opposed to 12% at the end of the last quarter. These changes reflected the fact that a greater number of smaller national level grants were during the past quarter owing to the speed with which these could be implemented in the run-up to the contract transition.

Grants to partners in the south increased slightly to 23% of total grants versus 22% of total grants approved by the end of the last quarter. Funding for southern grants dropped only 1% from previous levels but remained a solid 35% of total funds committed to date.

Jaffna grants remained at a stable 8% of total grants while commitment levels on these grants slipped slightly to 10% this past quarter from 11% of total funds committed at the end of June. In Puttalam, grants dipped to 5% of the total number approved but remained at 7% of overall grant funding. Grants in the border areas of Anuraddhapura and Vavuniya comprised 4% of the total grants made to date on the program and 2% of overall funds committed. It should be noted that there were no new grants written for Jaffna, Puttalam or the border areas during the period covered by this report. Any shift downward in the grant making percentages for these three regions was caused by increases in grant making in other areas of the country.

Grant making in the east (Ampara and Batticaloa) represented a lower percentage of overall grants and funding than in previous quarters. Approved grants comprised 28% of the program total compared with 30% at the close of the last quarter. However, the percentage of total grant funds committed to date remained at 19%. The percentage of grants made in the northeast rose slightly to 21% from 18% at the second quarter's close. Funding for northeast grants also increased to a total of 14% of overall grant funds committed. Details of grant making by office are addressed below.

Colombo Office Programming

The Colombo office closed the quarter and the old contract with a total of 93 grants for a value of \$2,688,008. Grant making for the quarter slowed in July as program development staff shifted their programming focus to those activities that would be funded under the new contract. No grant making under the old contract was permissible beginning 1 August.

From a geographic perspective, Colombo office grants approved during the past quarter were made only in the south and at the national level. The limited window in time for completion of activities prior to the end of the old contract meant that those activities which could be completed quickly or were located closer to Colombo were prioritized.

There were two national level grants of particular note due to the leveraging of other donor assistance. The first grant was an initiative to construct a mobile theatre for use by a traveling arts troupe. The troupe has been funded by FLICT (joint DfID and GTZ program in Sri Lanka) and the Dutch organization HIVOS to carry out peace-themed arts performances throughout the country over the coming two years. Our program's support to this effort enabled the grantee to overcome a funding obstacle that the other two donors could not surmount within their own mechanisms.

The second grant built upon the fine work done by repeat grantee partner Young Asia Television (YATV) that was funded by USAID under another program. The output of that earlier program was a 13-part teledrama series entitled "Take This Road". The series tells the story of 3 families whom fate has brought together – Muslim, Tamil and Sinhalese – and their experiences of the war and post-war period. Our program's support enabled YATV to re-edit the series into a feature length film that will be used by various groups around the country to stimulate dialogue on peaceful co-existence and key transition issues.

Ampara Office Programming

The third quarter of 2004 saw 5 new grants approved with budgets totaling \$125,050 from the Ampara office, bringing the total number of grants to 55 and the total commitment of funds for Ampara to \$829,926. Two grants each were made to partners in Ampara and Moneragala districts. The fifth grant was made in Batticaloa district. All grants except one were solid benefits of peace activities that have second phases funded under the new contract to facilitate the linking of assistance to the absence of war in the country.

One of the Ampara grants cleared during July was an awareness program for regional multi-ethnic journalists on federalism and power sharing. This was the second program with local media representatives; previous support to the group resulted in the formation of a multi-ethnic journalists' group called the "Mixed Media Forum", a first for Ampara. The Ampara office's continued contact with the local media has ensured excellent publicity and coverage of grantee activities in both Ampara and Batticaloa districts.

During July, the Ampara team also made a grant to Mananthoduwan Technical College, an institution that provides diploma courses in technical skills to Muslim and Tamil youth in the district, including youth from uncleared areas. With reconstruction of basic infrastructure now underway in many locations of Batticaloa district since the ceasefire agreement, there is a shortage of skilled labor. This grant provided tools and furniture to the technical college, which will allow students to practice their skills on modern equipment in a more comfortable learning environment. After completing their training, young men and women will be better able to assist the development activities in their district. A second grant under the new contract facilitated the connection between the provision of assistance and the absence of war.

Another July grant from the Ampara office was made to the Moneragala Base Hospital. Over the period of the conflict, the hospital lacked crucial equipment, most notably in the ICU unit, to provide quality care to the regional population. During this time, it was necessary to transfer critical patients to more distant locations for treatment. Under this grant, the program provided equipment – monitors, beds and other necessary items – to the hospital. The effect was immediately felt when hospital management reported that eight lives had been saved directly following delivery of the goods. A follow-on grant that was funded under the new contract was a series of medical outreach clinics by hospital staff to distant rural communities.

Trincomalee Office Programming

The third quarter of 2004 – that is, the month of July – saw the Trincomalee office make 4 new grants for a total of \$24,280. Once again, the transition from the old contract to the new contract affected the amount and nature of the grants made, with most representing first phase activities that would have second phase funding under the new contract. In addition, the Trinco office continued operate with only one PDO during the reporting period, in spite of a massive recruitment effort. Overall, the total number of grants given by the Trinco office since opening was 35 at the end of the July for a total of \$447,111.

One of the grants made in July was to repeat grantee Murugapuri United Development Organization (MUDO). This grant built upon their very successful earlier conflict mitigation work with a violence-prone multi-ethnic community in Trinco town. The grant expanded the beneficiary pool to include more hard line members of the community and engaged them in language skills development and conflict mitigation techniques. It should be noted that monitoring and evaluation of this grantee's earlier program by the short term M&E consultant rated the activity as having "High Positive Impact" among the beneficiaries.

IMPLEMENTATION

The most pressing implementation challenge of the third quarter was the closeout of all grants funded under the old contract while simultaneously maintaining the implementation momentum of grants cleared under the new contract. This was particularly so for those grantee activities that required two phases of funding.

Implementation staff in all three offices worked long hours to ensure that activities were completed, payment requests processed and financial reconciliations verified. This was made especially challenging due to the loss of one Grants Manager, who went into premature labor at the beginning of the closeout process. In Colombo, implementation staff assisted the closeout team to ensure that an internal audit of every master grant file for all three offices was conducted. Trackers were developed and updated on a daily basis to ensure that no information or steps were overlooked.

Results of the audit confirmed that all required documentation was in place by the close of the quarter. The only outstanding documents at the contract's close were those supplementary pieces of information that were requested by the COP to further enhance transparency in the event of a subsequent USAID audit.

Other implementation challenges confronted the Ampara office during the past quarter. The increased security levels that had been in place for the past months remained and staff were told to reduce their work-related travel. Although security continued to be more of an issue in and around Batticaloa, the Ampara office was vigilant in attempting to obtain up-to-date information pertaining to the security situation before allowing staff to move along the coastal road.

The security situation in Trinco during the reporting period also impeded implementation somewhat but staff were able to circumvent this obstacle by conducting business remotely through telephone and fax.

OPERATIONS

The highlights of the third quarter of 2004 are detailed below.

Administrative and Staffing Issues

Recruitment for current vacancies in Colombo and Trincomalee continued this quarter. In Colombo, the Program Development Officer position vacated by Mr. Ashan Malalasekera in May was filled by Ms. Sudharshini Dharmawardane, former Grants Manager and IT Specialist for the program. Ms. Dharmawardane's move to her new duties created a Grants Manager vacancy in the Colombo office. That vacancy was filled in July with the hiring of Mr. Anver Mustapha as our new Grants Manager. Finally, Grants Manager Ms. Samudra Dissanayake began four months of maternity leave in mid-July as a result of her premature delivery of a healthy baby boy. The Colombo office was unable to locate qualified temporary candidates for Grants Manager in her absence. Thus, her duties were covered by existing staff for the period of her leave.

In Trincomalee, a second vacancy in program development was created by the resignation of Ms. Natasha Cassiere in July. Fortunately, the first Program Development Officer vacancy was filled in the same month by Mr. Thangavel Sakthivell. Mr. Sakthivell was previously employed by the Ministry of Industries. He is a certified CEFE trainer and graduate of the Karuna Center's peacebuilding training program.

All three offices continued the search for additional personnel in anticipation of the new contract start date of 1 August. Details of this recruitment effort will be detailed under the first quarterly report of the new contract.

As mentioned above, the short term consulting assignment of Mr. Lee Briggs was extended into the third quarter. During the reporting period, Mr. Briggs further tested and expanded the program's monitoring and evaluation system. In addition, Mr. Briggs assisted in facilitation of the program's strategy session and was the lead facilitator for the team building session in Dambulla at the end of September. Mr. Briggs' assignment was completed on 2 October.

In September, Ms. Barb Lauer and Ms. Elizabeth Holt from DAI/Bethesda arrived in Colombo to support the program staff in closing out the old contract and transitioning to the new contract. Ms. Lauer's assigned duties changed to a significant degree when the Trincomalee Regional Program Manager, Ms. Brenda Barrett, took seriously ill in late August and required medical treatment abroad. At the request of the COP, Ms. Lauer was sent to Trincomalee to cover Ms. Barrett's absence and provide leadership to the Trinco staff on program development, implementation and contract closeout issues. Ms. Lauer was still able to carry out her closeout duties remotely but leadership of the closeout team was transferred to Ms. Holt. Ms. Holt performed in that role admirably, coordinating the entire effort with all three offices. Both Ms. Lauer and Ms. Holt also

participated in the team building session held in Dambulla at the end of September. Ms. Barrett, who returned to Sri Lanka in late September, was also able to attend.

During the past quarter, incoming mail to all three offices was “bagged” for a few days after the US embassy received a letter in which white powder was found. The offending letter was sent at once for analysis; the substance was discovered to be non-toxic. Once this was determined, processing of incoming mail returned to normal in all the program’s offices.

Financial and Contractual Issues

On 29 July, final negotiations were concluded between the Office of Procurement and DAI for the establishment of a new contract for the program. The contract, which began on 1 August, overlapped with the old contract until 30 September 2004. The value of the new contract is \$14 million and the term of the contract extends the program until 31 March 2006. Subsequent quarterly reports will detail activities approved and implemented under the new contract.